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DAN FARNETT
CHIEF OF STAFF

August 18, 2005

VIA HAND DELIVERY

Mr. Charles L.A. Terreni, Esquire
Chief Clerk/Administrator
South Carolina Public Service Commission
101 Executive Center Dr., Suite 100
Columbia, SC 29210

RE: Duke Power- Annual Review of Base Rates for Fuel Costs
Docket No.: 2005-3-E

Dear Mr. Terreni:

Enclosed for filing please find sixteen (16) copies of the Settlement Agreement in the above-referenced matter. Please date stamp one copy and return it to me via our courier. As provided in the Settlement Agreement, faxed signatures are attached. Original signatures will be provided as soon as possible.

We have served same on all parties of record and enclosed a Certificate of Service to that effect.

All parties plan to attend the hearing on August 24, 2005; however, only ORS witness A.R. "Randy" Watts will be testifying.

Please let me know if you have any questions.

Sincerely,

C. Lessie Hammonds

cc: Lara Simmons Nichols, Esquire (w/enclosure)
Richard L. Whitt, Esquire (w/enclosure)
Scott Elliott, Esquire (w/enclosure)

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**Duke Power – Annual Review of
Base Rates for Fuel Costs**

August 18, 2005
Columbia, South Carolina

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2005-3-E

August 17, 2005

IN RE:)
)
Duke Power, a division of Duke Energy) **SETTLEMENT AGREEMENT**
Corporation, Annual Review of Base Rates)
for Fuel Costs.)
)
_____)

This Settlement Agreement is made by and among the Office of Regulatory Staff of South Carolina ("ORS"), South Carolina Energy Users Committee ("SCEUC"), and Duke Power Company ("Duke") (collectively referred to as the "Parties" or sometimes individually as a "Party").

WHEREAS, the above-captioned proceeding has been established by the South Carolina Public Service Commission ("Commission") pursuant to the procedure in S.C. Code Ann. §58-27-865 (Supp. 2004), and the Parties to this Settlement Agreement are parties of record in the above-captioned docket. There are no other parties of record in the above-captioned proceeding;

WHEREAS, the Parties have engaged in discussions to determine if a settlement of the issues would be in their best interest;

WHEREAS, following those discussions the Parties have each determined that their interest and the public interest would be best served by settling all issues pending in the above-captioned case under the terms and conditions set forth below:

1. The Parties agree to stipulate into the record before the Commission the pre-filed direct testimony of ORS witness A.R. "Randy" Watts, without objection or cross-examination. The Parties agree to stipulate into the record before the Commission the pre-filed direct testimony of ORS witness

Jacqueline R. Cherry, without objection or cross-examination, and without testifying at the hearing. The Parties agree that no other evidence will be offered in the proceeding by the Parties other than this Settlement Agreement.

2. The Parties agree to amend the pre-filed direct testimony of A.R. “Randy” Watts by deleting the word “generation” on Line 13 of Page 9, and to accept and adopt the Settlement Agreement Exhibit 1, ADJUSTMENT FOR FUEL COSTS tariff, as attached.

3. The Parties agree to withdraw the pre-filed direct testimony and exhibits of M. Elliott Batson and Dwight L. Jacobs and the redacted and unredacted pre-filed direct testimony and exhibits of Janice D. Hager.

4. As a compromise to the positions advanced by ORS, SCEUC and Duke, all Parties agree to the proposal set out immediately below, and this proposal is hereby adopted, accepted, and acknowledged as the agreement of the Parties:

The Parties agree that in an effort to keep the Parties and Duke customers informed of the over/under recovery balances related to fuel costs and of Duke’s best efforts to forecast the expected fuel factor to be set at its next annual fuel proceeding, Duke will provide to SCEUC, and where applicable, its customers the following:

(1) copies of the monthly fuel recovery reports currently filed with the PSC and with ORS; and

(2) a quarterly forecast beginning February 15, 2006 of the expected fuel factor to be set at its next annual fuel proceeding based upon Duke’s historical over/under recovery to date and Duke’s forecast of prices for natural gas, coal, oil and other fuel required for generation of electricity. Duke will use its best efforts in making these forecasts. To the extent that the forecast data required hereunder is confidential, any party or customer that wants forecasted fuel data will have to sign a non-disclosure agreement agreeing to protect the data from public disclosure and to only disclose it to employees or agents with a need to know.

5. The Parties agree that any and all challenges to Duke's fuel costs for the period prior to July 1, 2005, are specifically discharged, waived, and not subject to further review. Fuel costs for periods beginning on July 1, 2005, and thereafter shall be open issues for determination by the Commission in future fuel costs proceedings held under the procedure and criteria established in S.C. Code Ann. §58-27-865 (Supp. 2004).

6. For purposes of this Settlement Agreement, all Parties agree that the appropriate fuel factor for Duke to charge for the period beginning with the first billing cycle in October 2005 extending through the last billing cycle of September 2006 is 1.5802 cents per kilowatt-hour. Incorporating the flow-back or decrement for this twelve month period only of the 0.1732 cents per kilowatt-hour (related to an excess deferred income tax liability) will produce a net billing increase of 0.2570 cents per kilowatt-hour from the currently approved 1.1500 fuel factor. The resulting net billing component is 1.4070 (1.5802 – 0.1732) cents per kilowatt-hour.

7. ORS agrees to conduct a review and study of Duke's fuel purchasing methods. The ORS study is to include the forecasted months of July, August, and September 2005 and will continue through at least the 2005/ 2006 winter peaking months before a recommendation is made based on its findings. ORS will have complete and total control and responsibility over the methods and procedures that it may employ to conduct its review but agrees to meet with any Party requesting such a meeting at the outset of its review to receive suggestions regarding the scope and details of the review. ORS requests that Parties provide suggestions in writing as early as possible; however, ORS will not impose a deadline for receiving such information. In addition, ORS has agreed that it will hold meetings with any Party or its expert(s), at the request of such Party, during the progress of its review to receive interim comments regarding the status, focus and scope of its review. At the completion of its review, ORS agrees to issue a written report which will set forth its findings and conclusions. A report setting forth such findings and conclusions will be issued by ORS on or before June 30, 2006. A copy of the report will be provided to the Parties upon its completion, and ORS agrees to meet with any Party to discuss the report.

Specifically, a comprehensive study of coal and coal transportation will be performed. This study and analysis will include, but not be limited to, the following subject matters with respect to fuel purchasing methods:

Coal and Coal Transportation

- Alternative Transportation Modes in Lieu of Existing Railroads;
- Alternative Sourcing of Coal;
- Term of Coal Contracts;
- Mixture of Coal Contracts;
- Inventory Storage;
- Mine Visits to Major Producers/Suppliers;
- Meetings with CSX and Norfolk Southern;
- Use of Private (Company Owned/Leased) Rail Cars; and,
- Open Access of Rail Lines in United States.

Other

- Purchasing of Purchased Power;
- Fuel Mix (relative proportions of nuclear generation, coal-fired generation and other generation); and
- Overall management philosophy, established policies and procedures followed in: (i) generation planning, and (ii) fuel procurement.

8. Duke agrees to cooperate in good faith with ORS in its conduct of its review of Duke's fuel purchasing by providing information to ORS in a prompt and reasonable manner as such information is requested. Confidential information will be protected by ORS under the terms of a confidentiality agreement, to be negotiated between ORS and Duke and duly executed prior to the release of confidential information. Duke also agrees that ORS may make available to SCEUC, for review and copying, any

information made available to ORS by Duke for this review subject to SCEUC executing a confidentiality agreement with Duke and ORS containing the same or substantially similar terms and conditions as agreed to by ORS, if SCEUC desires to have access to confidential information. SCEUC understands they may not solicit information directly from Duke under the auspices of ORS's study.

9. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable and full resolution of all issues currently pending in the above-captioned proceeding. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

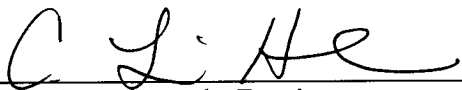
10. This written Settlement Agreement contains the complete agreement of the Parties. There are no other terms and conditions to which the Parties have agreed. This agreement integrates all discussions had among the Parties into the terms of this written document. The Parties agree that by signing this Settlement Agreement, it will not constrain, inhibit or impair their arguments or positions held in future proceedings. If the Commission should decline to approve the agreement in its entirety, then any Party desiring to do so may withdraw from the agreement without penalty, within 3 days of receiving notice of the decision, by providing written notice of withdrawal via electronic mail to all parties in that time period.

11. This agreement shall be interpreted according to South Carolina law.

12. The above terms and conditions fully represent the agreement of the Parties hereto. Therefore, each Party acknowledges its consent and agreement to this Settlement Agreement by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

WE AGREE:

Representing and binding the Office of Regulatory Staff:

A handwritten signature in black ink, appearing to read 'C. L. Hammonds', written over a horizontal line.

C. Lessie Hammonds, Esquire

Office of Regulatory Staff

1441 Main Street, Suite 300

Columbia, SC 29201

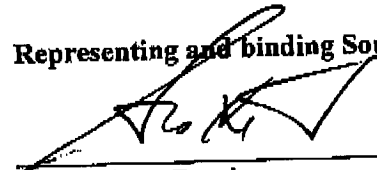
Phone: (803) 737-0800

Fax: (803) 737-0895

Email: lhammon@regstaff.sc.gov

WE AGREE:

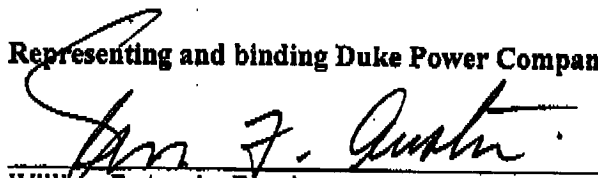
Representing and binding South Carolina Energy Users Committee:



Scott Elliott, Esquire
Elliott & Elliott, P.A.
721 Olive Street
Columbia, SC 29205
Phone: (803) 771-0555
Fax: (803) 771-8010
Email: selliott@elliottlaw.us

WE AGREE:

Representing and binding Duke Power Company:



William F. Austin, Esquire

Richard L. Whitt, Esquire

Austin, Lewis & Rogers, P.A.

Post Office Box 11716

Columbia, SC 29201

Phone: (803) 256-4000

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